

HB

251

M7

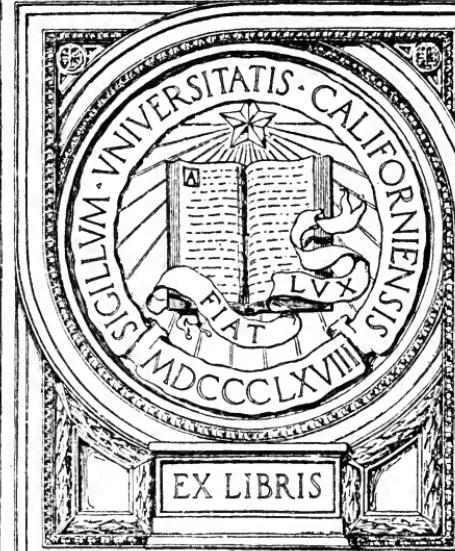
UC-NRLF



SB 88 167

YC 78665

GIFT OF



EX LIBRIS

GIFT
DEC 31 1913

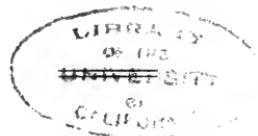
INCOME OF THE NATION

AND

DIVIDENDS OF THE MASSES

BY

VICTOR MORAWETZ.



(Reprinted from the New York Sunday Sun
of December 21, 1913.)

Victor Morawetz
Editor, "The Masses"

HB 251
M1

30. *Wall*
Antennaria

INCOME OF THE NATION

AND

DIVIDENDS OF THE MASSES.

From the beginning of history to the present day the great majority of mankind have had to earn their daily bread by the sweat of the brow. Modern inventions, machinery and labor-saving devices have provided cheap power and have increased enormously the productivity of labor employed in manufacturing and in other industrial pursuits. But they have not in an equal degree increased the yield of labor applied to the raising of grain, cattle, sheep, cotton and other produce of the farm, constituting the principal raw materials of food and clothing. A large part of the labor saved through inventions and machinery and various devices for the lessening of labor has been absorbed in new activities rendered necessary by increased density of population, by a state of civilization more complicated, if not higher, and by changed standards of living. To maintain a civilized community at the present day it is necessary to provide many things that were not required before the great industrial development of modern times.

The labor required to cultivate the soil and to produce grain, cattle, sheep, cotton, lumber and other raw materials of food, clothing and housing is but a minor

part of the labor required to support a civilized community. It is necessary to construct and to operate railways and telegraph lines, ships, canals, highways and other means of transportation and communication ; to raise coal, ores, oil and other minerals out of the earth ; to build and to operate manufacturing plants and machinery ; to make, by hand, clothing and other articles that machinery cannot produce in finished form ; to carry on numerous mercantile establishments and shops for the distribution of merchandise ; to establish schools, hospitals, courts and printing presses ; to provide the services of teachers, doctors, lawyers, engineers and other professional men ; to build cities and towns and to supply them with light, water and fuel. Furthermore, it is necessary to maintain national, state and municipal governments with an adequate army, navy and police, and a multitude of other governmental activities. All these things and many others are necessary.

In the United States a vast amount of labor must be expended to provide additional permanent works and instruments of production and distribution required by reason of the rapid increase of population and the rapid development of the country. It has been asserted by eminent authority that an average annual expenditure of approximately \$1,000,000,000 is needed to supply adequate railway facilities. Much larger sums must be expended in constructing additional dwelling houses, office and business buildings, factories, streets, highways and other improvements of cities and farms. All these permanent works and instruments of produc-

tion and distribution represent savings of the produce of labor; but these savings are not optional. They are essential to the life of the community.

Nearly all able-bodied men in the United States are engaged in work of some kind. Very few are wholly idle. A large majority are engaged in work necessary to the existence of the community. A comparatively small minority are engaged in the production and supply of luxuries, such as costly houses, fine clothing, works of art, jewels, amusements and leisure to be used or enjoyed only by the rich. In modern times, as in the past, the hard labor of a large majority of the able-bodied members of the community is necessary to maintain the community and to supply it with the necessities of life.

Division of labor and distribution of wealth.

In every community labor is divided into many separate occupations and activities. Few of the people by their own labor produce more than a small portion of the things necessary to their subsistence and many produce none of the things they use or consume. Even the food, clothing and housing of the poor are the produce of many hands and are gathered together from many places. Each worker contributes to the support of all the people, but each depends for his own support and security upon the labor of countless others and upon the industrial, commercial and political organization of the entire community.

Though the wealth and income of each member of the community are created in great measure by the

labor and capital of all the people acting in combination or cooperation, it is an undeniable fact that neither wealth nor income is distributed among the people evenly, or in proportion to their several contributions of labor and capital. From the beginning of history to the present day some of the people have received and have enjoyed more than they created by their own labor, more than they contributed to the aggregate production and more than they could claim on any plea of merit or justice. The great majority have had to toil for the bare necessities of life while a small minority have consumed large incomes in luxury and display.

Until modern times the laboring masses were practically a subject class denied participation in the government, and their political struggles were principally to obtain freedom and political equality. Through the institution of democratic forms of government with equal manhood suffrage the masses have obtained power to control the government. However, only within the last twenty years have they begun fully to realize their power and to unite in forming effective political organizations for the purpose of carrying out a common program or policy. For the first time in history truly democratic government is about to be tried on a large scale. At the present day in every civilized country there exists a strong movement of the laboring masses to improve their material condition by means of legislation. That there is no easy way of increasing the material welfare of the masses is evident from the fact that, notwithstanding thousands of years of endeavor, slow progress

has been made toward the desired end. This article is the result of an attempt to indicate briefly some of the things that can be done and some of the things that cannot be done to increase the income of the laboring masses. Only the economic aspects of the problem will be considered.

Distribution of instruments of production.

Under no plan of distribution can the entire community consume or enjoy more than the necessities of life and the luxuries produced by the labor of the people, or imported from abroad in exchange for things produced by their labor. Lands, manufacturing plants, railways and other productive properties cannot be consumed or enjoyed and are only instruments for the production, distribution, or supply of necessities of life and luxuries to be consumed or enjoyed. A redistribution or change of ownership of the lands and other natural resources and of the accumulated wealth of the nation would not increase the aggregate amount of necessities of life and luxuries available for consumption or enjoyment, nor would it diminish the labor required for their production. The hard labor of a large majority of the able-bodied members of the community would still be necessary to maintain the community and to supply it with the necessities of life. Furthermore, no redistribution could avoid the necessity of painful toil on the part of some of the people. Under any plan of distribution some of the people must clean the sewers, must work in the mines, must feed the furnaces and toil in the heat and cold,

and must perform all other disagreeable and dangerous services necessary to maintain the community.

Distribution of luxuries.

If the fine houses, fine clothing and other costly luxuries now enjoyed by the rich were distributed among all the people, the share received by each person would be small and few of the luxuries received upon such a distribution could be used or enjoyed. To live in fine houses, to wear fine clothes and to enjoy the luxuries of the rich involves the enjoyment of leisure and the employment of servants and most of the other expenditures of the rich. It involves also the existence of a social class similarly situated and with similar opportunities for display and pleasure. To the great majority who, under any practicable economic conditions, must labor hard to produce the necessities of life and necessary instruments of future production, fine houses and fine clothing would be less useful than the simple homes and the more serviceable clothing of the relatively poor. An even distribution of the luxuries now enjoyed by the rich would be of little benefit to the masses unless there were rich persons who could buy them and use them and unless, also, there were an increased supply of necessities of life and of simple luxuries that could be purchased with the proceeds. If there were no rich, and if no family had an income in excess of the small income that would be received by each upon an equal distribution, most of the things that are classed as luxuries, constituting a considerable part of the accumulated wealth of the world, would cease to be of any use or value.

Distribution of necessities of life.

Under existing economic conditions there is no substantial surplus of food, clothing, housing and other necessities of life available for distribution among the masses. The surplus of cotton, foodstuffs and other articles exported is not available for distribution as it must be used to pay for other articles imported and to discharge obligations incurred to foreign nations. A limited reserve of food, of clothing and of some other necessities is stored or kept on hand to provide for advantageous distribution and to meet the variations of seasons, but this reserve remains a practically constant factor and cannot be dispensed with. The rich, or the comparatively rich, do not consume much more than their average share of the mere necessities of life, and the excess consumed by them would furnish only a comparatively small fund for distribution among the entire population. The greater part of the consumption of the rich consists of luxuries which would not be available for even distribution. Upon an even distribution of all the necessities of life produced under existing conditions a majority of the people would receive little more than they now receive. Each head of a family might receive a little more than is received at the present day by the average day laborer, but probably not as much as is received by the average skilled workman.

For the foregoing reasons it follows that to increase substantially the food and clothing of a majority of the people, to give them better housing and, generally to add materially to their supply of necessities of life

and physical comforts it would be necessary first to increase the aggregate supply of food, clothing, of improved housing and of other things available for distribution.

Wages and prices—Labor unions.

The produce of labor and capital in the first instance is divided among those who furnish the labor (including every kind of mental or physical work or services) and those who furnish the capital, or the instruments of production and distribution. The division is effected by means of money transactions, the respective shares of those who furnish labor and of those who furnish capital being adjusted through the wages of labor, the profits of capital and the prices of the things produced. The wages of labor and the profits of capital, in effect, are drafts entitling the recipients to draw at current prices upon the aggregate wealth and produce of the nation. The share received by those who furnish the labor of production may be increased by an increase of wages if there be no equivalent increase of prices of the things purchased by them, or by a reduction of prices if there be no equivalent reduction of wages. Conversely, it may be diminished by a reduction of wages without an equivalent reduction of prices, or by an increase of prices without an equivalent increase of wages.

It should be observed, however, that those who furnish the capital employed in production commonly furnish also an essential part of the labor of production, namely, that of organization and management. Therefore, the sums received by them as profits consist partly

of earnings or produce of their labor. Labor commonly is hired by the owners of capital at fixed wages or compensation, but there are numerous cases in which laborers supply their own capital, or hire it from others. Thus farmers own the land they cultivate, or rent it from others, and often they employ other laborers and borrow capital from the banks. Similarly, artisans often work for their own account, or by the piece, and use their own workshops and tools. In these cases they receive the produce of their labor and capital combined, less the rent or interest which they must pay for borrowed capital.

Laborers who do not sell their labor for fixed wages but work for their own account receive for their labor the net value of their produce and no more. Unless competition is destroyed by monopoly, the wages paid by the owners of capital are fixed principally by the supply of similar labor and the demand for it, subject, however, to these limitations: except temporarily, the wages of labor cannot exceed the net value of its produce, after deducting all other costs of production, including taxes and the rent, interest or profits payable for the use of necessary capital; but wages cannot long be less than the necessary cost of subsistence of the laborers, or less than they can obtain in other employment.

The profits of capital depend upon costs of production and the value of the produce, which, in case of articles produced for sale, is determined by the price at which they can be sold. The rent or the interest payable for borrowed capital is fixed by supply and de-

mand; but, of course, under normal conditions employers of capital cannot afford to borrow unless their profits derived from the borrowed capital exceed the rent or the interest payable for its use.

Prices of commodities in great measure are fixed by supply and demand, but, except temporarily, they cannot be less than all costs, including wages and taxes, entering directly or indirectly into their production and distribution, together with some profit for the use of the capital employed. When costs of production or distribution are increased by an increase of wages or other cause, manufacturers and dealers raise their prices, unless checked by domestic or foreign competition; but if, owing to competition or other cause, they are unable to raise prices sufficiently to yield a profit satisfactory to themselves, they stop production or distribution. Hence an increase of the wages or cost of labor usually must be paid by consumers. A general increase of the wages of all labor would cause an equivalent increase of the price of nearly every product of labor and a general increase of the cost of living. The increased wages of the laborers then would not buy more than did their former wages and they would be no better off than before the increase. For this reason the economic welfare of the masses in the aggregate cannot be materially improved by the simple expedient of raising generally the wages of labor.

The labor unions constitute an important and far-reaching movement for the betterment of the economic condition of certain classes of able-bodied, independent and self-respecting members of the community. Un-

doubtedly they have been of benefit to their members, and, in so far as they have increased the welfare of a considerable part of the community, they have been beneficial to the community at large. However, it would be idle to ignore the fact that neither the purpose nor the effect of the labor unions has been to increase the aggregate produce of the community, or to reduce the cost of living, or to increase the wages or income of the great majority of the people. On the contrary, the purpose of each labor union is to increase the wages of its members by creating a monopoly of the class of labor which it can supply, and the necessary effect is to raise the prices of the products of such labor and thus to diminish the share received by the rest of the community who are not in a position to obtain a like increase of their wages or money incomes. This was illustrated by the result of the great strike of anthracite coal miners not many years ago. When the cost of mining coal was increased by the increased wages and other benefits awarded to the miners, the increased cost of production immediately was added to the price of anthracite coal to be paid by every household among the poor and rich alike.

So far as strikes or requirements of labor unions diminish the volume or the efficiency of labor, or cause a loss of markets by reason of increased costs of production, their effect is to diminish the aggregate produce of the nation representing the wages and income of all the people. So far as costs of production and the prices of articles produced by union labor are raised by increased wages, by reductions of hours of

work, or by "making work," the advantages gained by union laborers must be paid for by all consumers, including the union laborers themselves, in proportion to their consumption of these articles. The union laborers themselves can retain the advantages gained by them only so long as the great majority of other laborers and farmers do not obtain similar advantages.

Owing to the increase of the wages of farm labor and to the fact that population has increased faster than the volume of agricultural products, prices of agricultural products have risen substantially. To the extent that union laborers have had to pay higher prices for the products of agriculture, they have lost the benefit of their increase of wages, and to the extent that the farming classes have had to pay higher prices for the products of union labor, they have lost the benefit of the increased prices of agricultural products; but the great body of unskilled laborers, professional men, clerks and other workers who have not been able to obtain an increase of their wages, and all those persons who have fixed money incomes from investments have had to pay the increased prices of the products of union labor as well as of the products of agriculture, without obtaining any compensating increase of their own incomes.

Capital.

In considering the aggregate national wealth or capital bonds, mortgages, notes, accounts receivable and other credits must be disregarded, unless they represent claims against foreigners. Credits may

be regarded as wealth of their individual owners because conferring the power to obtain from others property of a money value equivalent to the principal and interest received ; but, as every credit involves an equivalent indebtedness or obligation, it is obvious that credits of individuals or of corporations against other individuals or corporations in the same country do not add to the aggregate wealth of the nation. Of course, shares in companies represent merely interests in the property of these companies and are not additional wealth. The portion of the currency consisting of gold and silver, which have intrinsic value, is part of the national wealth ; but bank notes and government notes, like other credits, are set off by an equivalent indebtedness and do not increase the aggregate wealth.

Comparatively, only a small part of the aggregate wealth or capital of a nation consists of consumable necessities of life and luxuries. The greater part consists of lands and their improvements, railways, manufacturing plants, business buildings and other things that cannot be consumed or enjoyed by the owners, but are the instruments or means of obtaining things that can be consumed or enjoyed. Furthermore, an important part of the accumulated wealth or capital of every civilized nation is intangible and consists of the education of the people, the training and experience of artisans, business men and intellectual workers, and the organization of business and other activities necessary to the existence and prosperity of the nation. All this tangible and intangible wealth or capital, except only land and natural resources, is the produce of labor and capi-

tal. It is a surplus produced by the people over and above the necessities of life and luxuries consumed or enjoyed by them, and it represents profits of capital and wages of labor, not consumed or enjoyed by the recipients, but saved and accumulated for future use.

Capital is as necessary to production as is labor; and it is rare that production can be increased without the use of increased capital. An enormous amount of labor and capital must be expended in producing necessary instruments of production and distribution and other tangible and intangible capital. To the extent that such instruments of production and distribution and other capital are required, the production of a surplus over and above the necessities of life and luxuries consumed or enjoyed by the people is a necessary charge upon them. No redistribution of capital, or readjustment of profits or of wages, and no transfer of the ownership of capital from individuals to the State could relieve the people from the necessity of producing by their labor not only all the necessities of life and luxuries consumed or enjoyed by them, but also all the instruments of production and distribution and all other tangible and intangible capital required for future use.

Only that surplus of the aggregate produce which, under existing conditions, consists of luxuries consumed or enjoyed by the rich could be taken away from the rich and be given to the masses to be consumed or enjoyed by them. *This surplus, however, would exist only if the aggregate produce of the nation, and consequently the labor of production, were not diminished;*

and it would be available for distribution among the masses only if the labor and capital now applied to the production of the luxuries of the rich were shifted to other production and were applied in such manner as to increase the necessities of life and the luxuries of the masses.

Interest of the community in the use of capital and labor.

As a rule, property or services can be exchanged for money, or for a credit expressed in money, and the money or credit can be exchanged, at will, for property or services, whether necessities of life, luxuries or productive property. For this reason capital, profits and wages commonly are expressed in terms of money; but it is important to bear in mind that money is only a medium of exchange and a measure of the exchange value of property or services, that capital really represents property, that profits and wages really represent the produce obtained by means of labor and the use of property, and that ultimately credits resolve themselves into interests in or claims against the property or income of others. An expenditure of money or of capital really means a transfer of property, or of an interest therein. Such transfer may involve merely an exchange of property for other property already in existence, or it may be made in payment for labor applied to the production of luxuries, or of necessities of life, or of additional instruments of production and distribution.

The community is not affected directly by a mere

change of ownership of existing property; but the community has a substantial and lasting interest in the use of capital in employing labor. The application of capital and labor to the production of luxuries, such as fine houses, fine clothing, amusements and leisure to be enjoyed by the rich, would diminish the supply of capital and labor which otherwise would be available for the production of things that could be consumed or enjoyed by the masses. On the other hand, the application of capital and labor to the production of additional necessities of life, or of additional instruments for their production or distribution, would increase the present or the future supply of things available for distribution among the masses and would tend to diminish the cost of these things.

It should be observed that although the use of capital in buying existing property from others would not directly affect the interests of the community, such purchases may affect the community indirectly by stimulating the production of more property of the same class. Thus, the purchase of existing articles of luxury usually would cause the production of more articles of the same class to supply the demand therefor. Though capital gives to the owner the power to direct the application of labor, the direction is determined largely by the demands of consumers.

The consumption of luxuries does not vary among the people according to their wealth or their incomes. Some persons consume in luxury not only their incomes, but also their capital. Others consume less than their incomes and save the remainder. As a rule,

the owners of small fortunes consume proportionately larger shares of their incomes than do the owners of large fortunes. Thus the owner of a fortune of \$50,000,000 with an annual income of \$3,000,000 probably would consume less than \$500,000 (not including purchases of property reserved for future use) while at least \$2,500,000 of his income would be saved and would be used, directly or indirectly, in creating additional permanent works and instruments of future production and distribution. But if the same fortune were distributed among 100 people, each owning \$500,000 and receiving an income of \$30,000, probably the greater part of their aggregate income would be consumed by them in luxuries and necessities of life and a greater number of idlers would be supported by the labor of the masses. If all the capital of the nation were vested in one man, he could consume only a negligible share of the aggregate produce, and the result would be practically the same as though all the capital were vested in an autocratic government. In fact, the share of the aggregate produce consumed by the individual owner probably would be less than the share consumed or wasted under government ownership and management. For these reasons the existence of very large fortunes, apart from the methods by which they were accumulated, is not economically prejudicial to the masses. There are objections to very large fortunes, but these objections are social and political rather than economic.

Profits of capital.

Unless competitive conditions are destroyed by the creation of monopolies or otherwise, profits of capital and rates of interest, as well as wages of labor, are fixed in great measure by supply and demand. The profit or the interest payable for the use of capital that can be diverted by its owners to other uses cannot be controlled by law, or by coercion in any form. Attempts to reduce the profit or the interest charged by the owners of free capital below the rates that can be obtained at home or abroad defeat themselves and are unavailing. History shows that attempts to regulate by law the rate of interest on loans (except loans at exorbitant rates to the ignorant or helpless) have simply resulted in shifting capital and in depriving borrowers of accommodation whenever lenders are unwilling to grant credit at the statutory rate. History shows also that attempts to regulate by statute the prices of commodities produced by free capital and free labor have failed, except temporarily, to accomplish their purpose, and generally have resulted in diminished production and in diminished wages.

The profits of capital that is fixed and that cannot be withdrawn by the owners and diverted to other uses, such as railways, manufacturing plants and other permanent works, may be restricted by statutory regulation of rates or prices; but a reduction of the profits of such fixed capital to a rate which is unsatisfactory to the owners, or lower than the rate obtainable for free capital, would discourage the investment of additional capital in the same enterprise, or in enterprises of a similar

character, and thus it would check increase of production.

The available capital of a nation can be increased only by saving and accumulating part of the profits of capital and of the wages of labor in the form of additional instruments of production and distribution, or of other useful property. The only practicable way of inducing such saving and accumulation of capital is to allow the owners of capital to obtain from its use a satisfactory profit. The only practicable way of reducing the rate of profit necessary to induce such saving and accumulation of capital is by increasing the available supply of capital, by keeping open competitive conditions in the ownership and control of natural resources and in production, distribution and trade, and by increasing confidence in the security of investments and in the stability of profits. No benefit would come to the masses from any reduction of the profits of capital resulting in a lessening of its supply.

Monopolies.

By destroying competitive conditions in the ownership and use of natural resources, or in production, distribution or trade, the owners of capital can raise prices and can increase their profits at the expense of the community. In recent years it has been contended that the interest of the community can best be served by permitting the creation of monopolies subject to governmental regulation of the industries that are monopolized, including the regulation of prices. The principal

grounds for this contention are that in many cases competition results in fluctuating prices, in the destruction of weak or inefficient competitors and in waste through unnecessary duplication of plants and selling agencies and through costly competitive advertising.

Though combinations lessening to some degree competition in production and in trade may be necessary to secure economy and efficiency, combinations destructive of reasonably competitive conditions or effecting practical monopolies are not necessary. On the contrary, the destruction of competitive conditions commonly leads to a lessening of enterprise and of efficiency. As mankind is constituted, the spur of competition is necessary to progress and to the development of enterprising and resourceful men. Industrial monopolies have not been the cause of our industrial progress; they have but reaped the fruits of progress that had taken place under competitive conditions.

Moreover, the governmental regulation of prices of commodities which would be required if monopolies were allowed is subject to grave objections. As prices depend largely upon wages, governmental regulation of prices probably would lead to indirect, if not direct, regulation of wages also. But it is clear that no government officials would be competent to adjust the prices of commodities or the wages of labor from time to time according to the fluctuations of economic conditions and to the requirements of foreign and domestic commerce. If the prices thus fixed were higher than those that would result under competitive conditions, the community would lose by the arrangement; but if they

were lower, enterprise and production would be checked and the community would lose equally. For these reasons it is a sound governmental policy to prohibit monopolies and combinations destructive of reasonably competitive conditions in production or in trade, but to permit combinations that increase economy or efficiency without destroying reasonably competitive conditions, though their effect may be in some degree to diminish competition.

Excessive luxury—Taxation.

Though a majority of the people cannot be benefited by taking away from individuals the right to accumulate and own capital, or the right to obtain a profit from its use, it is practicable to increase the welfare of the nation and the income of the masses by diminishing the wasteful consumption of labor and capital in luxurious living and in display. Undoubtedly the right to enjoy a certain measure of luxury is necessary as an incentive to enterprise, industry and thrift and to enable literature, science and the arts to flourish; but extreme luxury such as is enjoyed by many of the idle rich is not necessary. The useful members of the community and those who created large fortunes by their enterprise, industry or thrift rarely desire to spend their wealth in luxurious living and in display. A large part of the extreme luxury and display among the rich is due to the wives and children of those who created large fortunes and to persons who acquired their wealth by inheritance. Luxurious living certainly is not conducive to virtue or

to the highest culture of men and women. On the contrary, the experience of all mankind shows that it is demoralizing in its influence and is an unfailing cause of decadence.

That lavish expenditure by the rich benefits the masses by furnishing employment and by causing wealth to circulate is a fallacy. The servants of the idle rich and those who produce luxuries for their consumption or otherwise minister to their pleasure, as well as the idle rich themselves, must be supported by the labor of the rest of the community. It is true that any readjustment of existing conditions may cause temporary hardship to some of the people; but if part of the labor and capital now consumed in producing the luxuries of the rich were employed in creating additional instruments of production and distribution and in increasing the supply of necessaries of life and simple luxuries, surely the cost of living of the masses would be diminished.

Though prohibition of all consumption of labor and capital in producing luxuries for the rich, or in luxurious living, is not practicable or desirable, the diminution of such consumption of labor and capital is both practicable and desirable. Moreover, it is just to impose upon those who consume labor and capital without benefit to the community, or to its detriment, a larger share of the expenses of government than upon those who by their savings increase the wealth of the community. For these reasons part of the necessary expenses of government should be raised by taxing the production and the importation of the luxuries of the

rich and the consumption of labor and capital in luxurious living or in display. Such consumption of labor and capital by the rich varies approximately according to the value of the houses and country places they occupy or maintain and to the number of servants they employ for their comfort, pleasure, or display. Therefore, the consumption of labor and capital in luxurious living and display could be taxed with approximate equality by imposing upon every person a special tax measured by the value, in excess of a reasonable exemption, of the house or houses and lands occupied or maintained by him for comfort, pleasure or display, and by the number of servants employed by him for similar purposes. However, in measuring the unproductive consumption of labor and capital it should be borne in mind that only the original creation of luxuries involves a consumption of labor and capital. If luxuries are of a permanent character, such as costly houses, works of art, or jewels, their purchase from prior owners does not involve an additional consumption of labor and capital, but it involves merely an exchange of wealth between the purchaser and the seller.

It is also a proper exercise of the power of taxation to raise part of the necessary expenses of government by imposing special taxes upon succession to wealth by inheritance, or by gift, and upon the increase of land values due, not to improvements, but to increase of population and to the increased needs of the community. The unrestricted right to enjoy such unearned increase or wealth is not necessary as an in-

centive to enterprise, industry, or thrift, and it is just that some part of this unearned wealth should be applied so as to reduce the burden of taxation of the rest of the community.

Such taxation would embody a sounder policy than the imposition of extra or progressive taxes upon fortunes or upon incomes merely on account of their size, without regard to their source or to their use. Large fortunes often are created by superior enterprise, industry or thrift and, as pointed out above, large incomes do not necessarily result in a larger consumption of labor and capital than moderate incomes. On the contrary, in many cases such accumulations result in large savings of labor and capital and in an increase of permanent works and instruments of production and distribution beneficial to the entire community.

It is clear that taxation of luxuries, or unearned wealth, would not of itself increase the aggregate wealth or produce of the nation or the income of the masses. Such taxation would increase the wealth and produce of the nation only if the sums raised by taxation should be expended by the State more productively or more usefully than they would have been expended by those from whom they were taken. Such taxation would increase the income of the masses only if it should relieve the masses of burdens of taxation which, otherwise, they would have to bear, or if it should shift to the production of things available for distribution among the masses capital and labor which, but for such taxation, would be employed in producing luxuries, or in luxurious living. No doubt, sums raised by taxation

may be expended by the State so as to increase the produce of the nation and the welfare of the masses ; but it must not be overlooked that every such expenditure would involve a consumption of labor and capital and would diminish the supply of labor and capital available to the people for other production.

Socialism

The purpose of extreme socialism is to vest all capital or instruments of production and distribution in the State for the benefit of the entire community, to increase the aggregate production of necessities of life and luxuries available for distribution by compelling all the people to work, and to distribute the aggregate produce equitably among all members of the community. Even if it were practicable to confiscate and to vest in the State the capital or instruments of production and distribution now owned by the people, an attempt to attain the aims of extreme socialism would fail and would prove ruinous to the laboring masses as well as to the present owners of capital, unless the great majority of the people could be depended on to work industriously and fairly for the common good, and unless a large majority of the voters could be depended upon always to keep the government in the hands of wise, able and conscientious men. But the experience of all nations in all times, including present experience in the United States, shows that these conditions cannot be fulfilled. No one, except those whose eyes are blind to facts, or whose judgment is clouded by fanaticism, can avoid the conclusion that in material affairs as well as in politics the great majority of the

people are guided by what they believe to be their own immediate self-interest and not by altruistic considerations for the present or the future welfare of the community ; that it would be wholly impracticable to establish and to maintain a government competent to perform the functions required by advanced socialism, or fit to be entrusted with power to control the liberty of action and to direct the labor of the people or to distribute among them the produce of their labor ; that production under the direction or control of government officials would be highly inefficient and wasteful, and that distribution of the produce by government officials would be grossly unfair and sometimes dishonest. Certainly, the first step of those who are earnest in their advocacy of a socialistic government should be to aid by their votes to break down political ring rule and to elect competent and conscientious legislators and government officials. Whenever the government shall have become reasonably fit for the trust, a majority of the voters may be willing to entrust to it many of the activities and powers proposed by socialists.

Other objections to a socialistic form of government are that it would destroy incentive to enterprise, industry and thrift and that it would arrest civilization by putting an end to the conditions necessary to enable literature, science and the arts to flourish. Under a system of government that does not recognize and protect the ownership of capital, including the right to receive a profit for its use, practically the only field left open to men of constructive ambition and enterprise would be the field of politics.

How the share of the masses may be increased.

Individual effort usually has for its aim the gain or advantage of the individual; and even when its aim is altruistic its sphere of action necessarily is limited. For this reason many of the steps necessary or desirable for the welfare of the community can be taken only through the agency of the government. Education and the dissemination of useful knowledge, the care of the sick, blind, or otherwise helpless and the protection of the community against disease and danger always have been regarded as proper functions and duties of government. The regulation of child labor and of the hours of labor to preserve the health of the people, the requirement of proper safety appliances in the industries, compulsory insurance against accidents and disability, and other similar legislation for the general welfare are equally within the proper sphere of governmental action. In many cases such legislation leads to increased efficiency and ultimately to the economic gain of the community; but economic gain is not the only test of the propriety of governmental activity. The true test is the ultimate welfare of the community. Economic gain is but a means to that end. Undoubtedly the incompetency and self-serving character of many of the legislators and officials in control of the government is a serious objection to a wide extension of such governmental activity for the general welfare, and this objection can be met only by the election of better men. The first step, however, must be to improve political party organizations, which, in many cases, are merely combinations

or "trusts" of politicians to obtain for their own benefit a monopoly of the business of governing the country.

All that can be consumed or enjoyed by the entire community is the aggregate produce of labor and capital, less so much of this produce as consists of instruments of production and distribution and other necessary capital. A large amount of labor and capital must be applied to the production of houses, manufacturing plants, railways and other instruments of production and distribution required to meet the immediate requirements of the nation. Moreover, due regard for the future welfare of the nation requires that at least partial provision be made by the present generation for the increased amount of labor which probably will be required to produce the raw materials of food, clothing and housing as population increases without an equivalent increase of the supply of arable land and of other natural resources. But it should not be overlooked that every withdrawal of labor or capital from the production of things for present consumption or enjoyment must diminish the supply of such things and must increase their cost. Unproductive or useless consumption of labor or capital by individuals or by the government involves present loss to the community without compensating future gain.

All that can be given to labor under any plan of distribution is the aggregate produce of labor and capital, less so much of this produce as must be paid for the use of the capital as an inducement to its creation and to its supply. Owners of capital can be prevented

from increasing their share of the aggregate produce through monopolies of natural resources or through monopolies in production, distribution or trade ; but attempts by statutory regulation of prices or otherwise to reduce their share below the profit necessary as an inducement to enterprise, industry and thrift would result in a curtailment of production and would prove injurious to the masses.

In distributing the aggregate produce of labor and capital the principal controversy has been between the owners of capital on the one side and the laboring masses on the other side. The conflict of interest among the different classes of laborers has given rise to little controversy and seldom has been appreciated by the laborers themselves. Yet it is clear that each class of laborers is directly affected by the wages paid to other laborers. As the prices of commodities are determined largely by the wages of labor employed in their production, an increase of the wages of any class of laborers almost invariably raises prices and increases the cost of living. The division of the aggregate produce of the nation between labor and capital presents fewer economic and practical difficulties and fewer real grounds for controversy than the division of the share of the laboring masses among the laborers themselves.

To a limited extent the share of the masses can be increased by taxation imposing upon the rich a larger share of the expenses of government, and by causing part of the labor and capital employed in producing luxuries for the rich to be employed so as to increase the supply and to diminish the prices of things avail-

able for distribution among the masses; but no large increase of the share of the masses can be secured by these means. To increase largely the aggregate income of the laboring masses it is necessary to increase the aggregate produce of labor and capital out of which all wages and all profits must be paid. Such increase of the aggregate produce of the nation can be obtained only by two means, namely (1) by an increase of labor and capital applied to production, and (2) by an increase of efficiency in the use of labor and capital. The increase of the aggregate produce would inure to the benefit of the owners of capital and of the laboring masses through an increase of profits and of wages, or through a reduction of the prices of commodities. As in case of the distribution of the produce of labor and capital under existing conditions, the division of the increase between capital and labor would be fixed by supply and demand.

Increase of labor.

As a rule, laborers work as many hours a day as is for their own good or for the good of the community. A reasonable amount of leisure with opportunity for improvement and pleasure is necessary to secure efficient workers and good citizens, without whom popular government cannot endure. However, idleness, whether due to dissipation, laziness or strikes, is of benefit to no one and is injurious to the masses as well as to the rest of the community, because it diminishes the aggregate fund available for distribution and because it increases prices and the cost of living. Direct

governmental action compelling the idle to work, or compelling laborers to work more efficiently, is not practicable; but, certainly, it is the duty of the government to protect those who are willing to work from the violence and threats of others. For similar reasons the law should prohibit monopolies and agreements among laborers and regulations of unions arbitrarily limiting production in order to force the employment of more laborers. Such agreements, like combinations of capital in restraint of production or trade, are injurious to the great majority of the people because diminishing production and increasing prices.

Much loss of labor and capital is due to enforced idleness of laborers resulting from inability to obtain steady employment. Therefore, in all legislation affecting business and commerce the urgent need of stability should be recognized. For the same reason it would be desirable to establish public labor exchanges or employment bureaus; and whenever practicable, with due regard to economy, necessary or desirable public work, such as the construction of highways, should be prosecuted at times when there is a slackened demand for labor.

Increase of efficiency.

The most effective and the most practicable means of increasing the aggregate produce of the nation, of reducing prices and of diminishing the cost of living is by increasing efficiency and economy in production and in distribution. Enormous sums—probably

thousands of millions of dollars annually—could be saved through greater efficiency and economy in the operation of farms, factories, railways and mines, in the construction of buildings and of other permanent works, and in the distribution of the produce of industry among consumers.

The problem of increasing efficiency and economy is largely educational; but progress toward the desired end can be made only through painstaking effort, and, in many cases, cooperation on the part of the laboring masses or of the consuming public is essential. Much inefficiency and waste in production is due to the lack of interest of laborers and to the requirements of labor unions. Much inefficiency and waste in distribution is due to the extravagance, carelessness and supineness of consumers. A large part of the possible gain through increased efficiency and economy in production can be attained only when the laboring masses realize that their collective income cannot be materially increased except by increasing the aggregate produce of their labor and that an increase of the wages of a particular class of laborers usually is at the expense of the rest of the community. A large part of the possible gain through increased efficiency and economy in distribution can be attained only when the consuming public realize that all rents, wages, advertising expenses and other costs of shopkeepers and middlemen, as well as their profits, must be paid by consumers as part of the cost of the things they buy and that only by their own organized efforts can they reduce this factor in the high cost of living. The most effective way of supplying

the necessary incentive to an increase of the efficiency of laborers is by paying for labor according to its produce and by establishing an adequate system of profit-sharing. The most effective way of increasing efficiency and economy of distribution among consumers is by establishing a properly organized system of cooperative shops and markets.

The administration of nearly all departments of the national, state and municipal governments is a flagrant instance of inefficiency and waste that can be corrected only by cooperation of a majority of the members of the community. A distinguished senator is said to have stated publicly that three hundred million dollars could be saved to the people annually by more efficient administration of the departments of the national government. This probably was no exaggeration. Similar inefficiency and waste prevail in the administration of the various state, county and municipal governments throughout the country. The Bureau of Municipal Research in the city of New York and similar societies in other cities are rendering to the people an important service by their efforts to increase efficiency and economy in the administration of municipal affairs, and these efforts deserve the support of all who have the welfare of the people at heart. Certainly the masses can do themselves no greater service than by electing to office capable and conscientious men and by insisting upon efficient as well as honest administration of public affairs.

Although the administration of the departments of the government generally is inefficient and

wasteful, increase of efficiency and economy among the people can be aided effectively by an extension of the educational activities of the government. Thus, the efforts of the national and state governments to increase efficiency in agriculture could advantageously be increased and could be made more effective by the appointment of travelling expert teachers. Similarly, it would be desirable to establish bureaus of efficiency and economy to aid by the best scientific and expert advice the increase of efficiency and economy in the industries and the arts and in the distribution of foodstuffs and other necessary articles of domestic consumption.

There is no more effective way of increasing efficiency and the income and welfare of the entire community than by the vocational training of children. As education is one of the most important functions of government, the State should require all children to be trained in some useful occupation and should provide the opportunity for such training whenever parents are unable to do so. If necessary, the recipients of such training could be required gradually to repay its cost to the State out of their subsequent earnings.

Another highly desirable educational activity of the government would be to teach the people to use their incomes more efficiently and economically. Hundreds of millions of dollars are wasted by the people annually through mere ignorance and incompetence in household economy and especially in the selection and cooking of food. By greater efficiency in the use of their incomes the masses could obtain the equivalent of a substantial

increase of their wages. Besides, unwholesome, badly prepared and unpalatable food is one of the principal causes of ill health, of mental and physical inefficiency and of domestic discontent. Every girl child in the public schools should receive thorough training in the selection and preparation of food and in household economy generally.

Excessive use of intoxicating liquor is the cause of an enormous amount of inefficiency and waste. Whether the best way to correct this evil is by absolute legal prohibition may be a debatable question; but there can be no doubt that the enforcement of laws designed to diminish indulgence in alcoholic drink is urgently needed to protect the community from the resulting loss of production as well as to protect the intemperate and their families and to diminish degeneration and crime.

Readjustment required by increase of efficiency.

Increase of efficiency and avoidance of waste in production or distribution result in a reduction of costs unless there be an increase of wages equivalent to the cost of the labor saved. But unless those whose labor is saved can find other productive employment, there would be no increase of the aggregate production, and the community as a whole would gain nothing. The reduction of the costs of production or distribution would be at the expense of those laborers whose services were dispensed with. It is only when labor or capital saved through increase of efficiency or through the avoidance of waste is employed in additional pro-

duction that the community as a whole is benefited. Similarly, a reduction of the amount of labor and capital employed in producing the luxuries of the rich would not benefit the community unless the labor and the capital withdrawn from such employment were employed in a manner more beneficial to the community.

Neither labor nor capital can be shifted easily from an industry of one class to an industry of another class. A watch-maker cannot easily become a carpenter or a boiler-maker, and a butler cannot easily become a farmer or a cook. Even when suitable employment can be found, the shifting of labor from place to place or from occupation to occupation generally is attended to some extent by enforced idleness and loss. For this reason any sudden large increase of efficiency in production and distribution, or lessening of luxury among the rich, may result in temporary suffering of part of the people. At the beginning of the nineteenth century the introduction of the power loom and of other labor-saving machinery resulted in intense misery among the working classes in England, though the resulting increase of production proved ultimately to be of great benefit to the masses. In the United States there still remains ample opportunity for the productive employment of all available labor. Unless enterprise is arrested by financial disturbances or by loss of confidence in the security and stability of investments, labor saved through increased efficiency or economy in production and distribution or through a lessening of luxury would not remain idle, but soon would find employment in the same industry or in some other industry, and the whole

people would be benefited by the resulting increase of production. In any event, the ultimate welfare of the community cannot be sacrificed to avoid temporary suffering of part of the people, or even to prevent the pauperizing of those who are too old to find new means of earning a livelihood.

Of course, the profitable production of each kind of article is limited by the demand of consumers and by their means of paying for the things they desire. But, though the demand for things of a particular class may be limited, the desire for things or services to be consumed or enjoyed always will exceed the aggregate supply; and the aggregate means of the whole people to pay for the things or services they desire is measured by the aggregate supply of things and services that have an exchange value. So long as the supply of each kind of article or service is adjusted according to the demand therefor, the aggregate supply of things and services to be consumed or enjoyed never can exceed the aggregate demands of the people or their aggregate means of paying for the things demanded.

Effects of international trade.

Comparatively, only a small part of the aggregate produce of the labor of a nation can be exported, and only a small part of its requirements can be imported. Each nation must produce by the labor of its own people its buildings and other improvements of land, its railroads and other fixed plants, and it must furnish all the labor of transportation and distribution within the nation and practically all other labor, except only that entering

into the production of articles imported and the transportation of these articles to its shores. It is true that the title to fixed property which cannot be transported and shares in companies owing fixed property, may be sold to foreign nations; but the effect of such a sale of fixed property or of interests therein is merely to confer upon the foreign purchasers a right to receive for the use of the property profits or dividends representing part of the future produce of the nation in which the property is located. The property itself remains an instrument of production or distribution of this nation and the share of its produce receivable by the laboring masses is not affected, except, indirectly, by diminishing the accumulation of capital.

By borrowing from foreign nations, a nation may defer making payment for imports, and it may obtain the means of paying for imports by selling to foreign nations fixed property or interests therein, such as shares in manufacturing or railway companies. In case of imports upon credit the interest and principal of the sums borrowed become a charge upon the future produce of the nation and ultimately must be paid therefrom. Similarly, in case of a sale of property or of an interest therein, without physical export, the future produce of the nation becomes charged with the payment to the foreign owners of profits or dividends for the use of the property. Subject to the power of a nation thus to obtain imports upon credit or by creating charges upon its future produce, international trade resolves itself into an exchange among nations of the produce of their labor and capital. The only way in which a

nation can make ultimate payment for property imported, or can discharge its liabilities to other nations, is by exports of property. The exports of a nation may include any gold or silver not needed by the nation as a medium of exchange or as bank reserves; but only comparatively small balances can be settled by exports of gold or silver.

International transactions are adjusted and cleared through banking transactions so that the aggregate exports and borrowings of each nation are made available as a means of paying for its imports from whatever source derived and of discharging any of its obligations to foreigners. Thus imports of coffee from Brazil or of silks from France may be paid for out of the proceeds of cotton exported to England or out of sums borrowed in Holland to build a railroad. When capital is borrowed abroad to build a railroad in the United States the labor and materials employed in construction are not obtained abroad, nor is money imported; but bank credit is obtained which is transferred in payment for the labor and materials of construction furnished in the United States, and ultimately this credit is used to pay for imports of merchandise or to pay obligations incurred abroad. The ultimate result is that the sums borrowed abroad for the construction of permanent works are used to pay for consumable imports and for expenditures abroad, while a larger part of the labor of the people than otherwise would be practicable is applied to the construction of permanent works at home.

It has been estimated that approximately six thou-

sand million dollars of bonds and stocks of companies holding property in the United States are owned by foreigners while comparatively few foreign bonds and stocks are owned in the United States. This indicates that the aggregate sum of the imports of the United States, expenditures of Americans living or travelling abroad, remittances of immigrants, interest and dividends due to foreigners, freight and steamship fares and other payments and liabilities to foreigners has exceeded, by the cost of these bonds and stocks, the aggregate sum of the exports from the United States and credits otherwise obtained against foreigners. However, it is undoubtedly true that in the meantime the productive property and wealth of the United States have been increased by the labor of its people vastly more than the six thousand million dollars represented by stocks and bonds held abroad. In recent years exports of raw materials and merchandise from the United States have exceeded imports by more than five hundred million dollars annually; but the expenditures of Americans living or travelling abroad, remittances of immigrants, and liabilities incurred to foreigners for interest, etc., probably were substantially larger than this excess of trade exports over imports. In the meantime, however, the net aggregate wealth of the United States has been increased by the construction of railways, factories, houses and numberless other permanent works representing savings of the produce of labor.

As a nation receives for its exports no more than their equivalent and as ultimately it must pay out of

its produce the equivalent of its imports, neither exports nor imports directly increase the aggregate fund available for the payment of wages of labor and profits of capital; but international trade may increase this fund indirectly and may benefit a nation in various ways. Thus it enables each nation to employ its labor and capital in producing for export those articles which by reason of climate, supply of raw materials, or other cause, it can produce to greatest advantage, while obtaining in exchange necessary or desired articles which for any reason it cannot produce as advantageously as the articles exported, or which it cannot produce at all. International trade also enables a nation by obtaining imports upon credit to apply to the creation of permanent works and instruments of production and distribution a greater part of its labor and capital than otherwise would be practicable. Furthermore, it enables a nation which cannot increase largely its productive property at home to export surplus produce or wealth in exchange for interests in productive property or obligations of other nations and thus to obtain a charge upon their produce.

Exports and imports being wholly voluntary are made only when immediately advantageous to both exporting and importing nations. Though in some instances international competition may prove injurious to a nation by causing a disarrangement of industries, yet, as a rule, an international market is more stable than a market confined to the producing country, and, therefore, it tends to insure more steady employment of labor and greater stability of prices and of wages. Other important advantages

of international trade are that by producing competition and rivalry among nations it increases efficiency of production and distribution and by promoting intercourse among peoples it broadens their intelligence and increases civilization.

Protective tariffs.

The produce or income of labor and capital varies among nations according to their natural resources, their supply of capital and their efficiency of production, including the skill and industry of laborers and the intelligence of management. Assuming the profits of capital to be equal, the true income of labor varies among nations according to the productivity of labor, whatever scale of wages and of prices may prevail.

It has been asserted that a high or protective tariff benefits the laboring masses in the United States by protecting them against competition of the low-priced labor of foreign countries. Whatever may be the effect of a high or protective tariff upon prices and upon wages measured in money, it is clear that it cannot increase the aggregate produce of a nation or the real wages or income of the laboring masses, *except by providing productive employment for labor which otherwise could not be employed to equal advantage.* Under no system of tariffs or of taxation can the aggregate wages of labor in a country exceed the aggregate produce of this labor, less the profit which must be paid for the use of capital employed in production and distribution. So far as a protective tariff increases the

prices of things consumed by the laboring masses, whether these things be imported or produced at home, it diminishes the true income of the masses by increasing their cost of living. So far as it restricts imports of articles and forces their production at home by the use of labor and capital which could be employed more efficiently in other production, it tends to waste labor and to diminish the aggregate produce of the country available for distribution.

However, in some instances, high import duties may benefit the masses indirectly. Thus in some cases it may be beneficial and a wise exercise of governmental power to aid, at the expense of the nation, the starting or maintaining of industries which otherwise could not be started or maintained by reason of foreign competition, as, for example, if the establishment of these industries would furnish productive employment to labor which could not be employed more efficiently in other production, or if it would render the country less dependent upon foreign supply of certain necessary articles, or if by diversifying the industries of the country it would give greater stability to production and to the employment of labor in the aggregate. Unfortunately, protective tariffs in the United States usually have not been designed to benefit the whole people or to carry out a well considered and consistent national policy, but have been imposed to benefit certain sections of the country, or certain classes of manufacturers or laborers at the expense of the rest of the community.

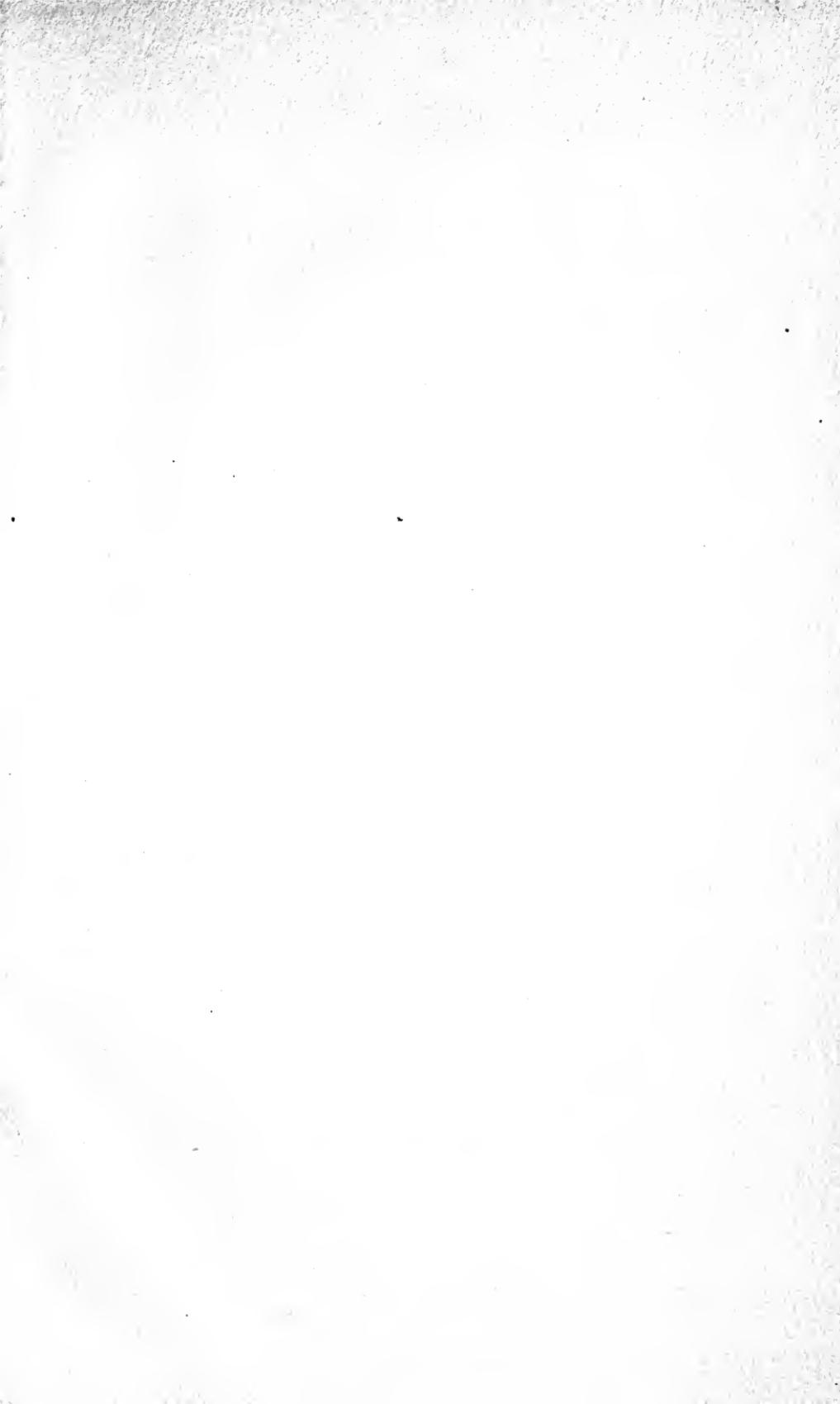
Labor and capital generally are more productive in

the United States than in the older and more densely populated countries of Europe, because in the United States natural resources are more abundant in proportion to population, more extensive use is made of machinery and labor-saving devices, greater economy is practised in the use of labor and, in many cases, producers and laborers work with greater energy and rapidity. In some instances natural advantages are so great and efficiency of production is so high in the United States that articles can be produced at lower cost than in countries where wages and profits are much lower. Furthermore, owing to the more rapid industrial development of the United States, labor and capital applied to the construction of permanent works and instruments of production and distribution have been more productive of wealth in the United States than in Europe. However, by reason of the fact that wages and profits are much higher in the United States than in Europe, costs of production and prices of commodities, in most cases, are higher than in Europe, though labor and capital are more productive.

The high scale of wages and of profits in the United States has been due in great measure to the large absorption of labor and capital, having regard to their supply, in the construction of permanent works and instruments of production and distribution, such as houses, factories and railway lines. By reason of the prospective value of such properties for future use, their construction has been highly profitable and has warranted the payment of high wages for labor and high interest for bor-

rowed capital ; but it has not resulted in an equivalent immediate increase of necessaries of life and of other consumable commodities and, by raising the standard of wages and profits, it has increased the cost of production and the prices of such commodities. The necessaries of life and other commodities consumed by all those engaged in the production of permanent works and instruments of production and distribution had to be created by the rest of the community, except so far as production at home was relieved by the importation of commodities from foreign nations upon credit, or in exchange for stocks and bonds.

For these reasons wages and profits, measured in money, do not furnish a sound basis for a comparison between the real income of labor and capital in the United States and their real income in Europe. The real income of labor and capital, in each case, can be measured only by the purchasing power of money wages and money profits, having regard to the prevailing prices of commodities and to the cost of living. Because of the higher scale of wages and of profits prevailing in the United States, costs of production and prices of commodities generally are higher than in Europe ; but, owing to the greater productivity of labor and capital in the United States, costs of production and prices are not as much higher as are money wages and money profits. Consequently, in the United States the real income of labor and capital is larger than in Europe, though not as much larger as are wages and profits measured in money.



**THIS BOOK IS DUE ON THE LAST DATE
STAMPED BELOW**

AN INITIAL FINE OF 25 CENTS

WILL BE ASSESSED FOR FAILURE TO RETURN THIS BOOK ON THE DATE DUE. THE PENALTY WILL INCREASE TO 50 CENTS ON THE FOURTH DAY AND TO \$1.00 ON THE SEVENTH DAY OVERDUE.

YC 78665

271273

Morawetz, V.

HB251

M7

UNIVERSITY OF CALIFORNIA LIBRARY

